



AUDITOR - GENERAL  
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Mr James Gunn  
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Dear Mr Gunn

**Consultation paper: Enhancing the Value of Auditor Reporting: Exploring Options for Change**

The Auditor-General of South Africa would like to take this opportunity of submitting comment on the consultation paper referred to above. We apologise for the late submission and would appreciate it if our comments could still be considered.

We attach, annexed to this letter, our responses to the specific questions asked in the consultation for your consideration.

Yours sincerely

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## General comments

How do the suggested improvements of the ISA 700 auditor's report correlate with the revised ISAE 3000?

Would the suggested improvements not currently be reported under the "Other legal and regulatory requirements" section of the auditor's report? If not, what should this section be used for?

## ISSUES IDENTIFIED

### **1. Do respondents have any comments about the issues identified in Section II regarding the perceptions of auditor reporting today?**

We agree that the language used to describe the auditor's responsibility is too generic and does not provide a full picture on the extent of work performed. We further agree that the auditor reporting should evolve to meet the needs of the users, but not to the extent where the auditor takes over management's responsibility to communicate information. It should be born in mind that the auditor has to comply with IFAC's code of ethics and specifically cannot provide confidential information of the entity to the users and cannot compromise independence by disclosing details of the audit procedures and key risk areas to the entity being audited. Laws and regulations also establish which information the users may have access to.

### **2. If respondents believe changes in auditor reporting are needed, what are the most critical issues to be addressed to narrow the information gap perceived by users or to improve the communicative value of auditor reporting?**

The roles and responsibilities of management and the auditor should be elaborated on with the use of less technical terms to make it more understandable to the users. The technical terms could also be explained in a separate document that is issued to and discussed with the users.

Cognisance should be given to reporting on non financial information such as performance and compliance. The format of the auditor's report to cater for "Integrated reporting" should also be considered.

### **Which classes of users are, in the view of respondents, most affected by these issues?**

Users with no or little financial background are most affected.

### **Are there any classes of users that respondents believe are unaffected by these issues?**

No, all users are affected even auditors have different interpretations of technical terms.

### **3. Do respondents believe that changes are needed for audits of all types of entities, or only for audits of listed entities?**

The auditor's report should be standard for all types of entities.

## EXPLORING OPTIONS FOR CHANGE

### **A. Format and Structure of the Standard Auditor's Report**

#### **4. Respondents are asked for their reactions to the options for change regarding the format and structure of the standard auditor's report described in Part A. Do respondents have comments about how the options might be reflected in the standard auditor's report in the way outlined in Appendix 1 of this Consultation Paper?**

We believe that the paragraphs could be repositioned. This would depend on the content thereof as the report should still have a logical flow.

**5. If the paragraphs in the current standard auditor's report dealing with management and the auditor's responsibilities were removed or re-positioned, might that have the unintended consequence of widening the expectations gap?**

We believe that the paragraphs should only be repositioned and not removed. Removal will widen the expectation gap because it will remove the context in which the report is provided.

**Do respondents have a view regarding whether the content of these paragraphs should be expanded?**

Yes they should be expanded and properly explained.

**B. Other Information in Documents Containing Audited Financial Statements**

**6. Respondents are asked for their reactions to the possibility that the standard auditor's report could include a statement about the auditor's responsibilities regarding other information in documents containing audited financial statements. Do respondents believe that such a change would be of benefit to users?**

We believe that such a statement should be included and would be beneficial to the users and the auditor. There is also other non-financial information included in the audited financial statements where clarity will have to be provided as to the auditor's responsibility regarding the audit of such information. It may be that the report will take on some of the characteristics an ISAE 3000 report as well (a combination for direct reporting matters as an example)

**7. If yes, what form should that statement take? Is it sufficient for the auditor to describe the auditor's responsibilities for other information in documents containing audited financial statements?**

This responsibility could be explained as well as the auditor's responsibility regarding subsequent events.

**Should there be an explicit statement as to whether the auditor has anything to report with respect to the other information?**

There should not be an explicit statement as to whether the auditor has anything to report with respect to the other information. ISA 720 is clear that these matters should be reported in an other matter paragraph if they occurred. If there is an explicit statement it might seem that the auditor is providing assurance on this statement.

**C. Auditor Commentary on Matters Significant to Users' Understanding of the Audited Financial Statements, or of the Audit**

**8. Respondents are asked for their views regarding the auditor providing additional information about the audit in the auditor's report on the financial statements.**

Entities and users are still under the impression that emphasis of matter and other matter paragraphs are modifying the auditor's opinion and this creates resistance to their inclusion. A new section in the auditor's report or a new term for this information could be considered.

The topics mentioned in the consultation paper should be reconsidered. As mentioned above, the auditor cannot just include information about the entity (would have to be inherent in the financial statements) without considering confidentiality, independence and whether the users have the legal right to the information.

Comments on the matters listed in paragraph 62:

- By listing key areas of risk of material misstatement this could create the impression that the risk actually materialised.
- Uncertainties regarding going concern are already an example of an emphasis of matter.

- The materiality applied – the inclusion of materiality could be confusing due to the different benchmarks on which this could be determined, the fact that there is an overall and performance materiality and that there could be a separate materiality for specific financial statement items.
- Areas of difficulty could result in a list of complaints, but could give more information on a limitation of scope.
- The basis for modification could be more explanatory and simpler written.

**9. Respondents are asked for their reactions to the example of use of “justification of assessments” in France, as a way to provide additional auditor commentary.**

We don't believe that the procedures performed will provide valuable information to the users. It could create a negative impression on whether sufficient work was performed. It could further complicate the report with technical terms and unnecessarily lengthen the report. This could be partially accomplished in expanding on the auditor's responsibility.

**10. Respondents are asked for their reactions to the prospect of the auditor providing insights about the entity or the quality of its financial reporting in the auditor's report.**

We agree that the matters listed in paragraph 72 would provide the user with valuable information, the auditor should however take care not to provide insights that would compromise the auditor's ethical requirements. We believe that risk management and the quality and effectiveness of management should be addressed as part of the information provided on internal control in the first bullet of paragraph 72.

**D. An Enhanced Corporate Governance Model: Role of Those Charged with Governance regarding Financial Reporting and the External Audit**

**11. Respondents are asked for their reactions to the options for change relating to an enhanced model of corporate governance reporting, as described in Section III, Part D.**

It is not clear how this process will be enforced? The auditing standards cannot impose requirements or responsibilities on management or those charged with governance. However the principle of improved corporate governance reporting is supported.

**12. To the extent that respondents support this model, what challenges may be faced in promoting its acceptance? Also, what actions may be necessary to influence acceptance or adoption of this model, for example, by those responsible for regulating the financial reporting process?**

Reporting on corporate governance is encouraged but not required and is not subject to audit.

To influence acceptance or adoption of this model, corporate governance reporting should be made mandatory through laws and regulations.

**13. Do respondents believe assurance by the auditor on a report issued by those charged with governance would be appropriate?**

Yes, but assurance can only be provided if there are suitable criteria and if the terms of providing such a report are communicated clearly upfront.

**E. Other Assurance or Related Services on Information Not Within the Current Scope of the Financial Statement Audit**

**14. Respondents are asked for their reactions to the need for, or potential value of, assurance or related services on the type of information discussed in Section III, Part E.**

Assurance or related services on such matters will provide more insight to the users of the financial statements, especially in the public sector. If auditors report on these matters it will hold management and those charged with governance accountable.

We suggest this be expanded to matters on compliance which are critical especially those concerning sustainability and accountability.

**15. What actions are necessary to influence further development of such assurance or related services?**

There has to be suitable criteria otherwise the auditor would not be able to provide assurance. The ED ISAE 3000 should be finalised and issued with sufficient guidance on direct reporting and the possibilities of a combined ISA 700 and ISAE 3000 report should be considered.

**Implications of Change and Potential Implementation Challenges**

**16. Respondents are requested to identify benefits, costs and other implications of change, or potential challenges they believe are associated with the different options explored in Section III.**

Users will obtain more information about how the funds they invested were used. This will assist in holding management and those charged with governance accountable.

The cost of audits will increase when the scope of the audit is increased. More people with specific skills will have to be employed to test for example sustainability and key performance indicators.

Wording in the reports could prove to be challenging, especially when the auditor is not providing assurance.

**17. Do respondents believe the benefits, costs, potential challenges and other implications of change, are the same for all types of entity? If not, please explain how they may differ.**

No they may be different based on the size and nature of the entity as well as the various regulatory requirements which some entities are required to adhere to.

**18. Which, if any, of the options explored in Section III, either individually or in combination, do respondents believe would be most effective in enhancing auditor reporting, keeping in mind benefits, costs, potential challenges, and other implications in each case?**

We believe that Part E would add the most value. Part D would also add value where assurance will have to be provided by auditors with regards to the reports prepared by those charged with governance.

**In this regard, do respondents believe there are opportunities for collaboration with others that the IAASB should explore, particularly with respect to the options described in Section III, Parts D and E, which envisage changes outside the scope of the existing auditor reporting model and scope of the financial statement audit?**

The IAASB should collaborate with other standard setters, those that prescribe reporting requirements in the different jurisdictions and entities.

**19. Are there other suggestions for change to auditor reporting to narrow the “information gap” perceived by users or to improve the communicative value of the auditor’s report?**

No